



BANK OF CANADA
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Business Outlook Survey

Results of the Spring 2014 Survey | Vol. 11.1 | 7 April 2014

The spring Business Outlook Survey offers encouraging signs for the economic outlook, although responses indicate that headwinds from intense competition and domestic uncertainty persist.

Overview

- Responses to the spring survey suggest that an improving U.S. economy and the recent depreciation of the Canadian dollar, together with firms' efforts to create new opportunities, are helping to support expectations for better growth prospects ahead.
- Businesses reported some improvement in past sales activity, and continue to anticipate an increase in sales growth over the next 12 months. Export-oriented firms generally expect sales to gradually strengthen, while those with a more domestic focus often cited efforts to enter new markets or develop new products following weak past sales. Plans to increase investment in machinery and equipment are similar to those in the winter survey, but have improved somewhat among manufacturers. Hiring plans are also positive.
- More firms indicate that they are operating close to capacity, yet reports of labour shortages have edged down. Firms expect upward pressure on input price inflation, largely reflecting the recent depreciation of the Canadian dollar, but the pass-through of these pressures into output prices is expected to be mitigated by strong competition. Inflation expectations are essentially unchanged and remain concentrated in the bottom half of the Bank's 1 to 3 per cent inflation-control range.
- Firms report a slight easing in credit conditions over the past three months.

The *Business Outlook Survey* summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The spring 2014 survey was conducted from 18 February to 13 March 2014. The balance of opinion can vary between +100 and -100. Percentages may not add to 100 because of rounding. Additional information on the survey and its content is available on the Bank of Canada's website. The survey results summarize opinions expressed by the respondents and do not necessarily reflect the views of the Bank of Canada.

Business Activity

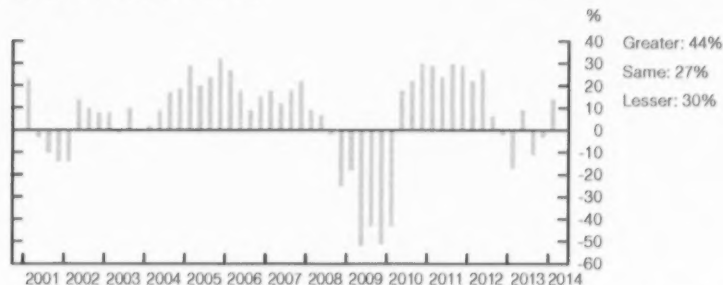
The balance of opinion on past sales has turned positive, as businesses report some improvement in sales growth over the past 12 months (Chart 1). As in recent surveys, however, a number of firms still experienced negative sales growth over this period. The balance of opinion on future sales remains solidly positive (Chart 2), in part reflecting the anticipation by some firms, particularly in Central and Eastern Canada, that sales growth will not deteriorate further over the next 12 months or will modestly improve.

The gradual strengthening of the U.S. economy and the recent depreciation of the Canadian dollar are expected to provide support to future sales growth, together with firms' efforts to create new business opportunities, develop new products and increase their market share. Firms report that orders from both international and domestic customers have generally improved relative to 12 months ago. Nonetheless, many businesses anticipate that near-term growth in future sales will be tempered by strong competition. Others continue to cite uncertainty regarding the timing of a strengthening in domestic demand.

Chart 1: Businesses report some improvement in sales growth over the past 12 months...

Balance of opinion^a

Over the past 12 months, did your firm's sales volume increase at a greater, lesser or the same rate as over the previous 12 months?

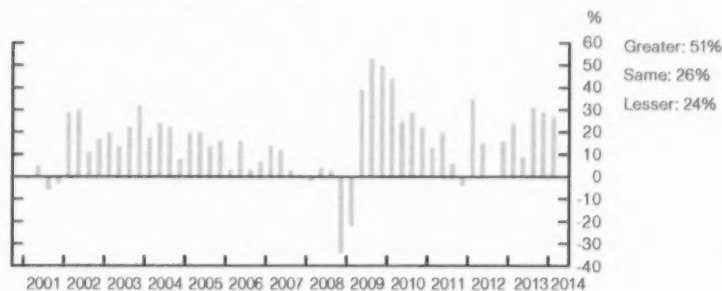


a. Percentage of firms reporting faster growth minus the percentage reporting slower growth

Chart 2: ...and continue to expect an improvement over the next 12 months

Balance of opinion^a

Over the next 12 months, is your firm's sales volume expected to increase at a greater, lesser or the same rate as over the past 12 months?



a. Percentage of firms expecting faster growth minus the percentage expecting slower growth

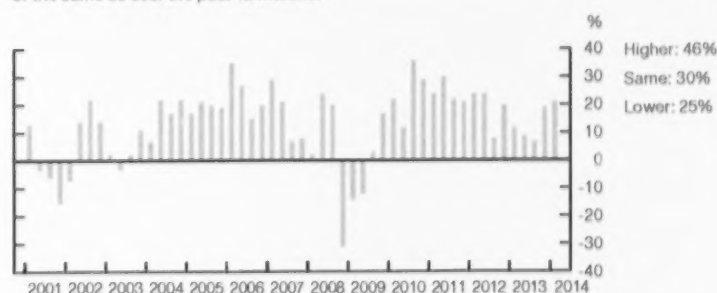
The balance of opinion on investment in machinery and equipment (M&E) remains positive but is essentially unchanged from the winter survey (Chart 3), as an improvement in M&E investment intentions in the manufacturing sector was mostly offset by declines in other sectors. Following a period of low investment, a number of manufacturers indicated that they are planning to increase spending on M&E in an effort to improve competitiveness or to create opportunities for growth. Intentions to increase M&E investment are somewhat more prominent among small and medium-sized firms and among export-oriented firms. That said, many businesses continue to report that uncertainty—most often related to domestic demand or, in some cases, sector-specific or regulatory factors—is leading them to delay or shift the focus of their investment plans.

The balance of opinion on employment intentions edged up in the spring survey (Chart 4). Firms planning to increase employment cite a somewhat improved sales outlook or hiring associated with their initiatives to drive growth.

Chart 3: Investment intentions are little changed overall, but have improved among manufacturers

Balance of opinion^a

Over the next 12 months, is your firm's investment spending on M&E expected to be higher, lower or the same as over the past 12 months?

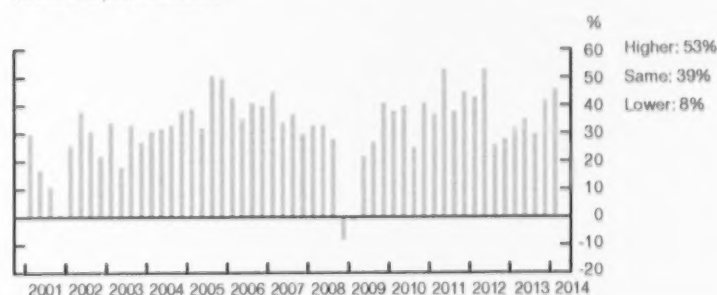


a. Percentage of firms expecting higher investment minus the percentage expecting lower investment

Chart 4: Plans to increase employment have edged up

Balance of opinion^a

Over the next 12 months, is your firm's level of employment expected to be higher, lower or the same as over the past 12 months?



a. Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

Pressures on Production Capacity

The percentage of firms reporting that they would experience difficulty meeting an unexpected increase in demand edged up in the spring survey (Chart 5), reflecting a rise in those reporting "some" difficulty. Few firms expect to face "significant" difficulty. Pressures on existing capacity, which were often attributed to more intensive use of the firm's current workforce, were slightly higher across most goods and services industries, as well as across export- and domestic-oriented firms.

The percentage of businesses reporting that labour shortages are restricting their ability to meet demand is marginally lower than in the winter survey (Chart 6). Labour shortages were generally cited only in relation to hiring for specific positions, skill sets or regions.

Chart 5: Capacity pressures rose, reflecting a more intensive use of firms' current workforces...

How would you rate the current ability of your firm to meet an unexpected increase in demand?

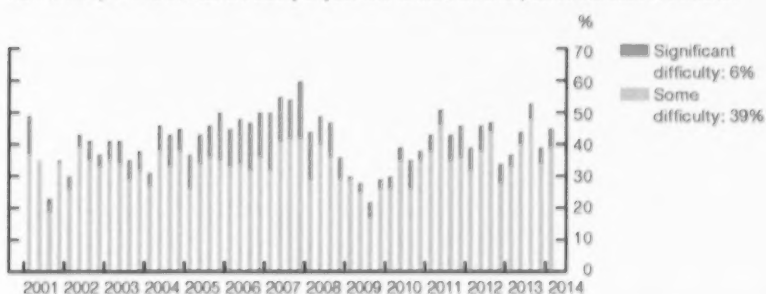
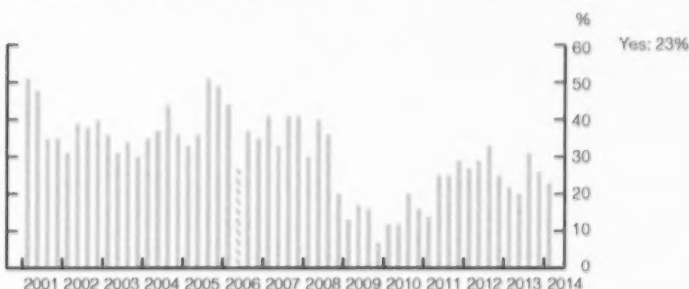


Chart 6: ...while reports of labour shortages edged down

Does your firm face any shortages of labour that restrict your ability to meet demand?



/// The summer 2006 results are not strictly comparable with those of the other surveys, owing to a difference in the interview process for that survey.

Prices and Inflation

The balance of opinion on input prices rose sharply in the spring survey (Chart 7), reflecting a widespread view that the recent depreciation of the Canadian dollar will put some upward pressure on input price inflation. Many firms report already having seen the prices of imported inputs rise as a result of the lower dollar. A few firms also identified various domestic sources of modest pressure on input costs.

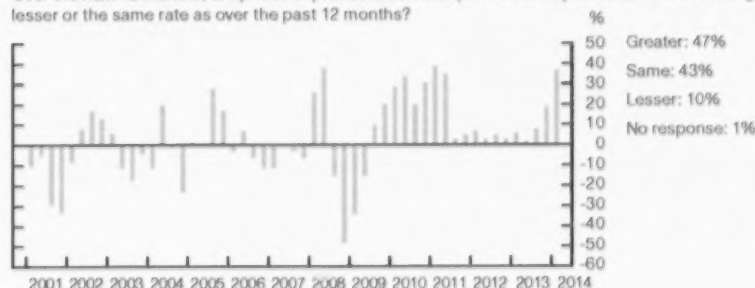
The balance of opinion on output prices is also positive, although it is lower than that for input prices (Chart 8). Some firms hope to be able to at least partially pass higher costs from the exchange rate depreciation through to output prices. For others, particularly businesses in Central and Eastern Canada, intense competition continues to exert downward pressure on output prices.

The vast majority of businesses expect inflation to be within the Bank's 1 to 3 per cent inflation-control range over the next two years, with expectations concentrated in the bottom half of that range (Chart 9). Expectations continue to be dampened by softness in domestic sales and by the recent weakness in inflation data, although a few firms anticipate that higher import prices due to the lower Canadian dollar may contribute to slightly higher inflation outcomes in the future.

Chart 7: Firms expect input prices to increase at a greater rate, largely reflecting the recent depreciation of the Canadian dollar...

Balance of opinion^a

Over the next 12 months, are prices of products/services purchased expected to increase at a greater, lesser or the same rate as over the past 12 months?

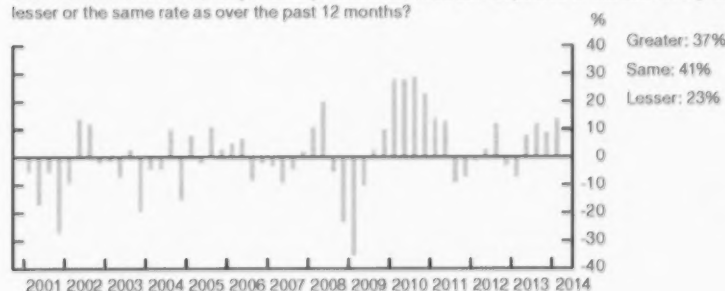


a. Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

Chart 8: ...although strong competition is limiting the extent to which this upward pressure is expected to pass through to output prices

Balance of opinion^a

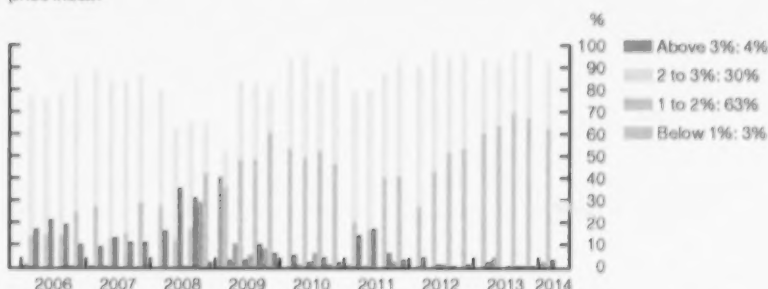
Over the next 12 months, are prices of products/services sold expected to increase at a greater, lesser or the same rate as over the past 12 months?



a. Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

Chart 9: Inflation expectations remain concentrated within the Bank's inflation-control range

Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?

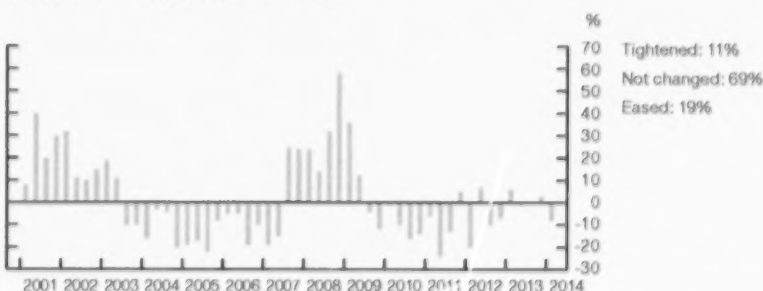
**Credit Conditions**

The balance of opinion on credit conditions indicates a slight easing in credit conditions over the past three months (Chart 10), which was spread across most regions, sectors and firm sizes. Those businesses experiencing tighter credit conditions reported facing a difficult sales environment. Overall, however, most firms continue to describe credit as easy or relatively easy to obtain.

Chart 10: Firms report a slight easing in credit conditions over the past three months

Balance of opinion^a

Over the past three months, how have the terms and conditions for obtaining financing changed (compared with the previous three months)?



a. Percentage of firms reporting tightened minus the percentage reporting eased. For this question, the balance of opinion excludes firms that responded "not applicable."

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